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FOR IMMEDIATE RELEASE
April 13, 2006

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Retirement-Age Baby Boomers Expected to Reshape Outlook for Pensions, Housing and Financial Services

FDIC Analysts Report on Financial Implications of Aging "Baby Boom" Demographics

As the nation's 76 million "baby boomers" (born between 1946 and 1964) enter their sixties, they will come face-to-face with the challenges of financing their retirement and will reshape U.S. markets for housing and financial services, according to the Spring 2006 issue of the ***FDIC Outlook***.

Taking the long view on forces shaping the financial services landscape, FDIC analysts report on how long-run demographic trends are affecting the funding of pension plans; how a large and relatively affluent baby boom generation is influencing the demand for housing; and how demographic shifts may also alter the mix of financial products and services offered by FDIC-insured institutions.

"To meet the challenges of these long-term demographic changes, it is vital to understand the implications for both individuals and financial institutions," said FDIC Chief Economist Richard A. Brown. "Innovative approaches will be needed to secure the aging baby boom generation's financial future, and the financial services industry can benefit by helping to find those solutions."

This issue of the ***FDIC Outlook*** describes how the aging of the U.S. population, caused by declining birth rates in the 1960s and 1970s and by rising longevity, is making it increasingly difficult for both public and private pension plans to keep their financial footing. Meanwhile, competitive pressures in the U.S. corporate sector and low returns in corporate defined benefit pension plans appear to be driving a long-term shift toward defined contribution pension plans. The pros and cons of this shift, from the perspective of both corporations and employees, are discussed.

In addition, both the aging of the baby boom generation and the influx of foreign-born residents appear to be fueling demand for owner-occupied housing, although these developments are not taking place uniformly across the country. FDIC regional analysts report that a net migration of baby boomers to the West and the South is also tending to shift the demand for housing—and the chartering of new financial institutions—toward those areas of the nation.

Finally, one article in this issue of the ***FDIC Outlook*** identifies opportunities for insured institutions to expand sources of noninterest income by designing products and services that may meet the unique financial needs of aging baby boomers, such as reverse mortgages and annuities with escalating payments.

The ***FDIC Outlook*** can be found at http://www.fdic.gov/bank/analytical/regional/index.html.